PRT™
Altogether a better approach™

PRT Forest Regeneration Income Fund
2002 Annual Report

Altogether a better approach™

Company Profile

Contents

PRT is Canada's leading forest nursery company, with 13 nurseries located from eastern Ontario to British Columbia and a combined capacity to produce in excess of 130 million seedlings per year for our customers' reforestation requirements.

PRT was founded in 1988 following the privatization of several British Columbia government-owned forest nurseries. Since that time the Company's business has grown by entering new markets, and through a managed acquisition and expansion program. The Fund has continued this tradition following its initial public offering in 1997, and since then has significantly broadened its market reach and regional diversification across Canada.

Our facilities are located near the areas where our customers operate, providing them with the benefit of local services combined with the resources and experience available through a national network of operations. Through this structure we establish close working relationships with our customers, allowing us to better understand their needs.

The forest industry is being driven by trends toward consolidation and globalization, outsourcing, and a high focus by all stakeholders on responsible forest resource management. **PRT** is responding to these trends by offering our customers an integrated package of facilities and competitively priced products and services to assist in the efficient management of their plantations.

Our business is founded on three cornerstones: Reliability, Service and Value.

Our Mission statement embodies these operating philosophies:

- **PRT** offers nursery and related services to the forest sector.
  - Our customers, employees, investors, and suppliers are our partners.
    - To our customers, we commit to provide reliable service and to be innovative within a competitive price structure.
      - We recognize that the success of our Company depends on our employees' achievement of success, in a safe working environment.

PRT Locations

2002 Operating Highlights

- Delivered our one-billionth tree since the company's inception in 1988.
- Maintained stability in distributable cash flow, despite challenging forest industry conditions.
- Produced over 130 million seedlings, achieving a slight increase in market share in our primary markets.
- Strengthened our balance sheet by completing an issue of 1.6 million Trust Units, the proceeds of which were used to retire debt and provide working capital.
- Continued to pursue growth opportunities, culminating with our announced intentions to invest in JRP Consulting, a leading e-business solution provider to the forest seedling industry, and our intention to establish PRT's first nursery facilities in the United States.

Financial Highlights

(in millions of dollars, except per Unit amounts)

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Revenue	$ 34.3	$ 35.2	$ 33.3
Operating Earnings	7.6	8.9	8.1
Net Earnings[1]	4.9	4.4	4.1
Per Trust Unit	0.73	0.78	0.74
Distributable Cash	6.8	5.7	5.4
Per Trust Unit	1.01	1.01	0.96
Cash Distributions per Trust Unit[2]	0.99	1.01	0.96
Cash Generated from Operations	7.5	8.5	7.6
(before net change in non-cash working capital items)			
Net Additions to Capital Assets, including acquisitions	1.7	2.4	5.4
Total Assets	68.7	69.9	71.0
Unitholders' Equity	59.9	46.8	47.8
Per Trust Unit	8.26	8.35	8.53
Price Range per Unit on the Toronto Stock Exchange:			
High	11.26	11.45	10.20
Low	9.51	8.60	7.00
Closing Price at December 31	10.01	11.10	8.75

[1] After giving effect to change in accounting policy for goodwill amortization.

[2] Including dividend declared in subsequent fiscal year on account of current year's operations.

About the Fund

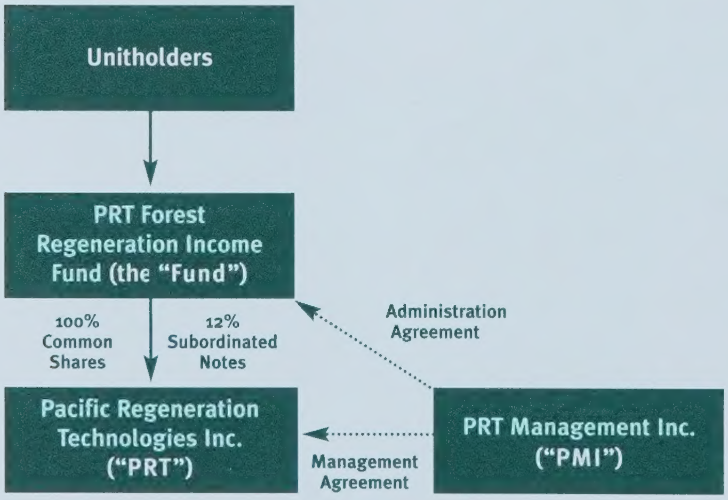
The PRT Forest Regeneration Income Fund (the "Fund") is an open-ended, single-purpose Trust, which owns all of the common shares and subordinated notes of Pacific Regeneration Technologies Inc. ("PRT"). Units of the Fund are traded on the Toronto Stock Exchange (PRT.UN) and are eligible for Registered Retirement Savings Plans (RRSP), Registered Retirement Income Funds (RRIF), Deferred Profit Sharing Plans (DPSP), and Registered Education Saving Plans (RESP).

PRT is Canada's largest forest nursery company, producing over 130 million seedlings per year. Operations are conducted from 13 nurseries located from eastern Ontario through British Columbia.

Management

Under a Management Agreement, PRT Management Inc. ("PMI") provides to the Company management and administration services, as well as the services of the President and Chief Executive Officer, the Vice President Business Development, and the Vice President Finance and Administration and CFO. For these services, PMI is entitled to receive a fee based upon reimbursement of its internal costs without allowance for profit. In addition, as an incentive to increase returns to Unitholders, PMI may receive incentive fees which are earned only when cash distributions to Unitholders exceed certain defined levels, starting at $1.10 per Unit. The voting shares of PMI are owned by approximately 100 shareholders who are current directors, officers and employees of PMI and PRT.

The structure is illustrated below.



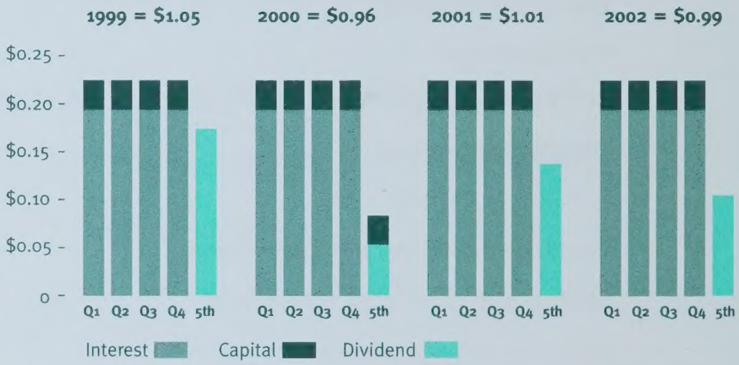
Goverance

The Board of Trustees of the Fund consists of three members, all of whom are independent of, and unrelated to management and PMI. The Board of PRT consists of five members, three of whom are independent of management and appointed by the Fund Trustees. Mr. Dobell, the Chairman of the Board of Trustees, also serves as the Chairman of the Board of PRT. The Trustees are appointed annually at the Annual General Meeting of Unitholders. More information on the Fund's governance practices is available in the Information Circular of the Fund, prepared in connection with its May 15, 2003 Annual General Meeting of Unitholders.

Distributions

The Fund's Policy up to 2002 has been to distribute interest received from PRT on a quarterly basis, and dividends received on account of the prior year's operations on an annual basis, less the Fund's administrative expenses. Starting in 2003, distributions of interest receipts will be made on a monthly basis.

Distribution History (1)



(1) Including dividend distribution made in the following year (5th distribution).

PRT's earnings are not based on a depleting asset base. In determining the amount to distribute to Unitholders, PRT's Board seeks to strike a balance between funding expansion and cash distributions to Unitholders, with a view to maintaining a strong financial position. Since inception, the Fund has distributed over $32 million to Unitholders, while maintaining and significantly expanding its productive capacity and geographic base of operations.

Operations Report

Diversification strategy *pays off* during challenging year

For the second year in a row, PRT and its customers faced tough market conditions. In this environment, our focus was on increasing market share and cost control, while carrying on with key strategic initiatives. We were largely successful in our efforts, managing to launch programs to grow the company, improve profitability, and maintain stability in the Fund's cash distributions.

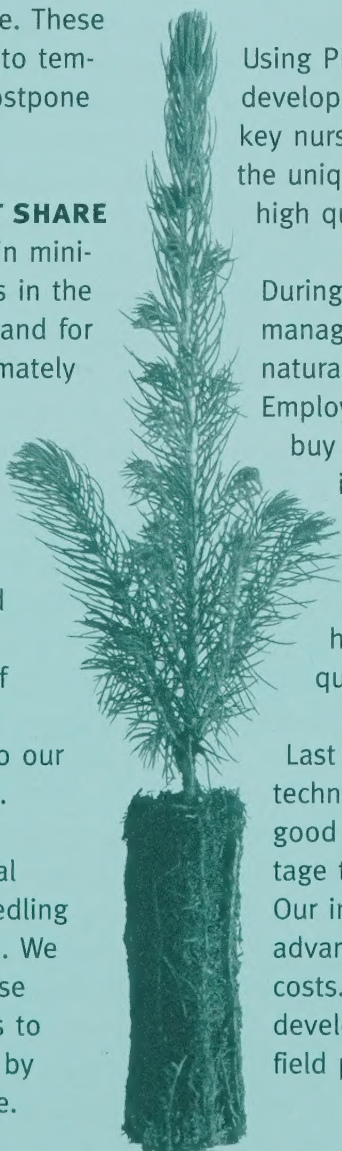
During 2002, soft commodity prices once again plagued Canadian lumber producers and some segments of the pulp and paper market. The resulting economic pressure compounded ongoing difficulties caused by the Canada/U.S. softwood lumber trade dispute. These market conditions forced many customers to temporarily cut back timber harvesting and postpone silviculture activities.

Canadian operations gain market share

PRT's geographic diversity served us well in minimizing our exposure to regional downturns in the forest products industry. Even though demand for seedlings in our markets declined approximately 10%, our volumes were down less as a result of a small gain in market share.

One of the regions hardest hit by these adverse conditions was coastal British Columbia. While these circumstances could have been devastating a few years ago, when our customer base was comprised of a higher percentage of BC companies, the impact was reduced considerably thanks to our expanded Canadian and U.S. market reach.

Market conditions remain difficult in several regions, putting continued pressure on seedling prices and demand for silviculture services. We will maintain our strategy to deal with these pressures by searching for innovative ways to lower the cost of seedling production and by maintaining high levels of customer service.



Continuous innovation leads to lower costs

Our strategy for dealing with these pressures has been to develop innovative ways to lower the cost of seedling production while still maintaining high levels of customer service. Over the past two years, we have successfully developed new methods of growing seedlings that have enabled PRT to lower nursery maintenance and energy consumption and reduce the amount of capital needed to expand our nurseries. The result is more efficient operations and lower costs for PRT, and more competitively priced products for our customers.

Using PRT's size to our customers' benefit, we have developed specialized expertise in certain products at key nurseries. In doing so, we can efficiently create the unique growing environments necessary to produce high quality seedlings on a consistent, reliable basis.

During 2002, we continued to focus on energy management at our nurseries, which use mainly natural gas to heat greenhouses during cold months. Employing a diversified purchasing strategy – we buy on a pooled cooperative basis with other industrial users and purchase other supplies from local sources – we reduced energy costs by over $100,000. We expected greater savings, however, cool spring weather meant higher energy consumption to maintain crop quality and customer delivery schedules.

Last year, we invested over $400,000 in information technology upgrades. In today's business world, good information systems are a competitive advantage that enable us to serve our customers better. Our investment allows us to fully exploit these advantages and help us control administrative costs. In addition, we maintained research and development into new methods for improving the field performance of our seedlings.

Talking about *reliability* ...

"My 20 years of forest industry experience in BC and Alberta has afforded me valuable insight into the tough issues that need to be addressed to achieve good plantation performance. I take my job as a reliable supplier of quality seedlings very seriously in order to be a strong link in the complex chain that ensures productive, healthy forests for generations to come."

Peter Richter
PRT Regional Manager North
PRT employee since 1989

Talking about *value* ...

"PRT's network of 13 nurseries puts us close to our customers, enabling them to interact regularly with nursery managers who are familiar with local conditions. In addition, it allows us to offer optimum climates to produce specialty seedlings, which reduces risk for our customers and ensures competitive pricing."

Rob Maxwell
PRT Regional Manager East
PRT employee since 1994

Increased earnings, stronger cash reserves improve financial position

In spite of difficult market conditions, net earnings and distributable cash flow rose last year, primarily the result of retiring our long-term debt with equity and reduced capital expenditures.

Contracted seedling volumes and average prices both fell last year due to temporarily reduced silviculture spending in the forest industry. Weaker volumes and prices were the major contributors to a slight decline in revenue, down 2.5% to $34.3 million. In addition, our sales mix changed, reflecting an increase in lower margin service revenues, such as cold storage and seed orchard work. As a result, operating profit margins declined approximately 3% to 22.3% of revenue.

Even though revenue and operating margins declined, net earnings increased by 13% to $4.9 million as a result of lower interest, depreciation, and amortization expenses, as well as future income tax recoveries.

Decreased demand for seedlings meant that we were able to cut back on capital expenditures to $1.8 million last year, a reduction of $0.7 million compared to 2001.

We were also able to reduce the amount of cash flow applied to debt service. During the spring, we took advantage of strength in the equity markets to raise $16.5 million in capital through the issuance of new Trust Units. The proceeds were used to repay all term debt and improve our working capital position. As a result, the company is now debt free and has up to $20 million available under its term debt facility to finance future growth initiatives.

The resulting increase in cash flow allowed us to increase Unitholder distributions by $1.1 million to an all-time high of $6.8 million, or $1.01 per Unit.

Strategic alliance expands service offerings

For the last decade, the Canadian market for forest seedlings has been fairly stable at approximately 650 million seedlings annually. Sixty-five per cent of Canada's seedling production is planted in BC, Alberta, Saskatchewan, Manitoba and Ontario where PRT's overall market share is approximately 30%.

While we need to work hard to continue to grow market share in the current market environment, PRT is dealing from a position of strength. Although there are many competitors, most are small owner-operators serving regional markets from a single location. The past six years of growth have established PRT as the leading supplier of container-grown seedlings in North America, to the point that no significant new competitor has entered any of our primary markets.

We believe that continually expanding our range of services is key to maintaining our leadership position. Accordingly, late last year we purchased an equity interest in JRP Consulting Ltd., a private BC-based technology company that develops highly regarded seedling supply-management software.

We see this investment as an excellent strategic fit that can help our customers streamline seedling delivery and planting to improve the efficiency of their silviculture operations. In addition, our longstanding relationships with some of North America's largest forest products companies is an opportunity to enhance our investment in JRP by accelerating revenue growth and the launch of new software products.

Talking about *service* ...

"Over the last 14 years, I've had the good fortune to work closely with foresters throughout BC's southern interior. This experience has shown me first-hand how important a good working relationship between the nursery and field forester is to achieving goals and making continuous improvements for our customers. Nothing is more satisfying to me than to see a new plantation growing well."

David Swain
PRT Regional Manager West
PRT employee since 1988

Talking about *service* ...

"My main focus is to understand our clients' challenges, work with them to provide solutions that lead to improved field performance and get plantations to the free-to-grow phase faster. There's tremendous satisfaction in seeing successful plantations and knowing that we've made contributions towards exceeding our clients' silvicultural expectations."

Glenn Goodwill
Nursery Manager, PRT Beaverlodge, Alberta
PRT employee since 1988

Expansion plans provide platform for growth

Over the past few years, we have steadily increased seedling sales to customers in the U.S. from our Canadian nurseries. Today, they represent approximately 8% of revenue.

As this large market becomes familiar with the benefits of container-grown seedlings – higher survival rates, improved field performance, and easier handling – demand is expected to grow significantly. We see an opportunity to build a platform for growth in this market by using our expertise in producing container-grown seedlings and establishing operations closer to U.S. customers.

Recently, we completed two years of extensive growing trials at a site near Las Vegas. We are now pursuing the purchase of a site in Nevada's Pahrump Valley, an area that offers unique climatic advantages for high quality, cost-effective seedling production. Our plan is to construct growing facilities there with initial annual production of approximately 750,000 seedlings, plus capacity for future expansion. To complement this new operation, we have contracted seedling cold-storage facilities in Medford, Oregon, a location close to Pacific Northwest customers.

Our outlook: Short-term challenges, encouraging long-term opportunities

While we expect a challenging operating environment again in 2003, we are encouraged by the long-term outlook for PRT and our industry.

Market conditions have stabilized thanks to a robust U.S. housing market that has kept lumber shipments high from the most efficient Canadian mills and sustained timber harvesting in many areas. Recent strength in pulp prices is also encouraging.

We expect corporate consolidation in the forest industry to continue, accelerating the trend to outsourced silviculture services. In addition, larger forest products companies are increasingly turning to single-source suppliers to simplify their seedling purchases and reduce silviculture costs. We believe that our market leadership, expertise, and range of services provides us with an excellent opportunity to capitalize on these trends and continue to increase market share in Canada.

While we have taken initial steps to expand our markets in the U.S. and provide more innovative service offerings to our customers, realistically these strategies will take time to mature and reach their full potential. While we are optimistic about their long-term potential, it is unlikely that they will contribute to earnings in 2003.

The Canada/U.S. softwood lumber dispute continues to be a major factor for many of our customers and the timeline for its resolution is uncertain. PRT has an annual production cycle, and any resolution of this issue in 2003 would be too late to have a positive impact on PRT in the current year. However, a resolution could potentially stimulate activity in the forest products industry for 2004.

The operating pressure our customers feel from lumber tariffs and historically low pulp prices is real, and as a supplier to the industry, we share these pressures. Furthermore, we are facing the prospect of significantly higher natural gas prices in 2003. Both of these factors will present operating challenges.

We continue to focus our efforts on the needs of our customers by providing innovative and cost-effective reforestation solutions as a means of improving their competitive position. This is the key to maintaining market leadership in difficult times, and PRT is committed to this course.

Report to Unitholders

John Kitchen
President & CEO
Pacific Regeneration Technologies Inc.

Last year, marked the sixth anniversary of the formation of the PRT Forest Regeneration Income Fund. Even though 2002 was one of the most challenging years we have faced since the Fund's formation, PRT was able to hold a steady course and lay the groundwork for future growth.

We firmly believe that our strategic direction, vision, strong management, and the dedicated efforts of our employees were responsible for our solid performance in 2002.

Solid performance in spite of tough market conditions

Despite the ongoing effects of the Canada/U.S. softwood lumber dispute and slowdown of the U.S. economy, sales were steady in most markets, with the exception of coastal British Columbia. Our coastal BC nurseries were particularly hard hit by restructuring within the region's forest industry.

Overall sales for 2002 were $34.3 million, a decline of 2.5% from our peak year in 2001, and operating income was down $1.3 million to $7.6 million. This drop was mainly attributable to lower volumes and prices, as well as higher administrative expenditures to upgrade information systems and strengthen our management team. These expenditures were essential in maintaining our competitive advantages and keeping PRT poised for growth as forest industry conditions improve.

The financing allowed us to retire our term debt and bolster working capital, leaving us with an exceptionally strong balance sheet.

In 2002, we took advantage of strong markets for Income Funds to complete a $16.5 million Trust Unit offering. The financing allowed us to retire our term debt and bolster working capital, leaving PRT with an exceptionally strong balance sheet. By retiring PRT's debt, we significantly reduced debt service costs, which in combination with lower amortization costs and higher tax recoveries, offset the decline in operating income and increased net earnings over 2001. Although net earnings per Trust Unit were $0.05 lower for the year, most of this was attributable to the net impact of one-time costs to retire the term debt ($0.03 per Unit). The reduced debt service freed up operating cash flow and increased our distributable cash flow by $1.2 million to $6.8 million. On a per Unit basis, distributable cash flow was stable at $1.01 per Unit.

We are pleased to have achieved our longstanding goal of maintaining steady, sustainable returns to Unitholders in spite of last year's tough operating conditions and an increase in Fund Units outstanding.

Quality assurance program scores high marks

During 2002, we launched the "Right from the Start™" initiative, a quality assurance program designed to provide continued improvement in the criteria our customers seek most: reliability, service and value. Right from the Start™ set measurable targets and sought to increase the speed with which we improve our value proposition to customers.

Thanks to the efforts of our employees, the improvements resulting from this program were especially gratifying. Our internal measures of customer satisfaction, the key metric in the program, exceeded the program's goals, and nine of our 13 nurseries achieved satisfaction ratings of 99% or better. We will pursue further improvement in 2003 by building on the program's early success.

Strategic alliance, U.S. expansion add to growth opportunities

Another service-related initiative was PRT's new strategic alliance with JRP Consulting. JRP is the creator of Plant Wizard, a computer-based system that facilitates improved silviculture planning and seedling management. We anticipate that this alliance will provide JRP and PRT with mutually beneficial opportunities to market their products and services to a wider range of forest industry customers.

Our expansion into new market areas continued last year, resulting in increased orders for 2003. We are planning a new nursery in southern Nevada to supply seedlings to our western U.S. forest products customers. To support this expansion and provide new U.S. customers with convenient delivery options, we established a storage and distribution centre in Oregon. PRT expects this expansion to help solidify our position as a significant supplier to this market.

Management team and Board of Directors strengthened

Last year, PRT made several important senior management changes. In July, after a distinguished career in forestry, former CEO and Vice Chairman Evert Van Eerden retired. Ev's leadership and vision were instrumental in making PRT what it is today, and his contributions to the Company and the industry are well known. John Kitchen assumed the role of CEO in addition to President and will continue to lead PRT towards realizing its strategic goals.

In late 2002, Herb Markgraf joined PRT's management team as Vice President, Business Development. Herb comes to PRT after many years in senior sales and marketing positions in the forest products industry. He brings a wealth of knowledge and understanding in the areas of new market and product development, customer service, strategic planning and pricing.

We also strengthened PRT's Board of Directors with the addition of two new directors. George Stevens, Q.C. joined the Board and became a Trustee of the Fund in April 2002. George brings a wealth of experience in business development and finance, including his recent position as Vice President, Corporate Affairs with Teck Corporation. In May 2002, Chris Worthy, who was instrumental in establishing PRT in 1988 and creating the Fund in 1997, rejoined our Board. The insight and support of these new directors will be invaluable as we move forward.

We are pleased to have achieved our longstanding goal of maintaining steady, sustainable returns to Unitholders.

Moving forward with confidence

Last year was a disruptive year for many of our employees. Numerous changes were required as we adapted to new market conditions and forged ahead with our customer-focused strategies. We are particularly proud of our employees' efforts to provide exemplary customer service built on a foundation of reliability, service and value. PRT's personnel are motivated and committed to ensuring that PRT is a sustainable, growing business.

Open compound and greenhouses at PRT Birchill, Ontario.

As we enter 2003, we are encouraged by the results of our ongoing focus on quality seedling supply. While we face challenges to contain costs during a period of high energy prices and sluggish markets, we believe that we have the resources necessary to take advantage of long-term growth opportunities in our industry.

The goal of PRT, its employees, management and Board is to maintain steady, sustainable returns to Unitholders. We would like to welcome our new Unitholders and thank all our investors for their continued support and confidence.

On behalf of the Trustees and Management

Colin A.C. Dobell
Trustee and Chairman

John Kitchen
President & CEO
Pacific Regeneration Technologies Inc.

Management's Discussion and Analysis

We are pleased to present the sixth annual report of the PRT Forest Regeneration Income Fund, for the year ended December 31, 2002. This section presents management's view of the operating results, financial position and business of the Fund, and its wholly owned operating subsidiary, Pacific Regeneration Technologies Inc. ("PRT").

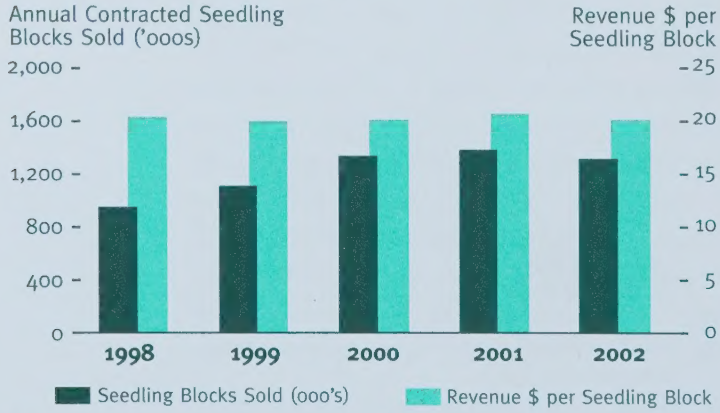
The Fund's activities are restricted to holding the Common Shares and Notes of PRT, receiving income from such securities and distributing such income to Unitholders. The financial condition and results of the Fund are entirely dependent on the operations of the Company. PRT generates its income by operating a network of forest seedling nurseries and its earnings and cash flows are affected by the volume of seedling blocks sown and the contracted value generated per seedling block.

Revenue is principally generated from contracted seedling sales recognized on a percentage of completion basis as well as other revenue derived from non-contracted seedling sales, cold storage, tree planting, and other services. Margins are affected by the extent to which PRT owns rather than leases greenhouse capacity, the mix of greenhouse and open compound production, space utilization, employee productivity, input costs, and the contracted value per seedling block.

Operating Results

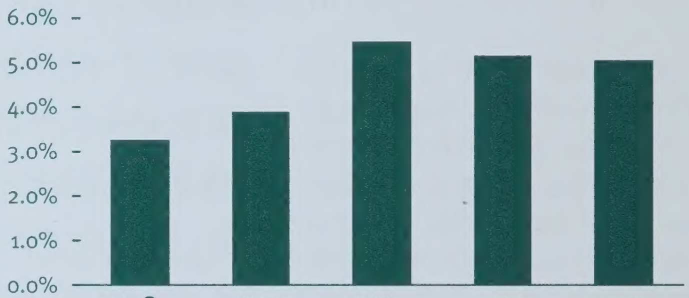
Revenues in 2002 declined by 2.5% or $888,000, to $34.3 million. This decline was the result of lower contracted seedling volumes and prices in 2002, brought on by the adverse conditions that have existed in the forest industry over the past two years. Although in 2002 there was some growth in revenues for other services, such as tree planting, seed orchard activity and cold storage, this was not enough to offset the lower seedling volume.

Block Space and Pricing



Costs of production in 2002 were in line with those for the prior year, at $20.4 million. While costs for seedling production declined on lower production volume, this was offset by higher costs for other services, corresponding to the increase in other services revenue. These services have lower margins than contracted seedlings, and accordingly costs are more significantly impacted by this shift in revenue mix. In addition, costs of production were impacted by cool spring weather this year, which led to higher than expected energy consumption, and necessitated increased crop management expenditures to keep crops on track with customer specifications. Overall, heat costs in 2002 averaged 5.0% of revenue, a slight decline from the 5.2% achieved in 2001. The decline is attributable to the impact of lower commodity prices in 2002, but was largely offset by higher consumption noted above. Based on 2002 energy consumption, management estimates that a $1.00 change in the average annual price per gigajoule of natural gas will impact the Fund's earnings and distributable cash by approximately $0.03 per Trust Unit.

Heating Costs as a Percentage of Revenue



Nursery administration costs increased by $323,000 in 2002, to $4,972,000. This was mainly the result of increased information services and personnel costs, and was in line with expectations. Fund administration costs were $39,000 lower year-over-year, while the management fee payable to PRT Management increased by $98,000, to $1,098,000. In September 2002, the independent directors of PRT approved a $68,000 increase in the annual management fee, and approved additional out-of-pocket costs to make certain organizational changes.

Administration Costs

	1998	1999	2000	2001	2002
Nursery Administration	3,312	4,026	4,466	4,649	4,972
Fund Administration	246	178	223	198	160
Management Fee	825	1,000	1,000	1,000	1,098
Total Administrative Costs	4,383	5,204	5,689	5,847	6,230
Administrative Costs as a percentage of revenue	20%	19%	17%	17%	18%

As a result of the aforementioned volume, revenue mix and cost factors, operating income margins in 2002 declined relative to 2001. Operating income margin was 22.3% in the current year, a decline of 3% from the 25.3% margin earned in 2001.

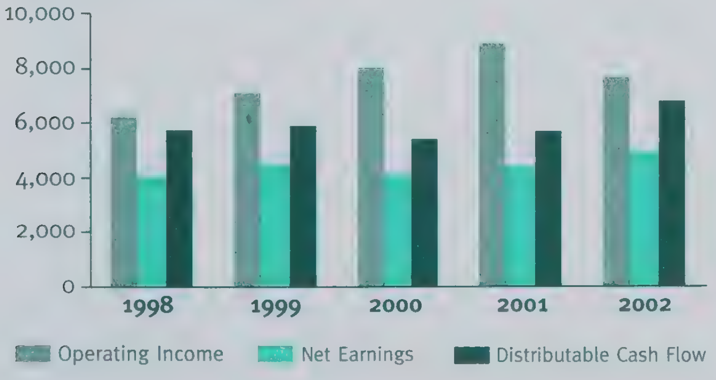
On a year-over-year basis, interest costs were $767,000 lower in 2002, resulting from retirement of the Company's term debt facility in May 2002. This interest cost reduction was partially offset by a one-time loss of $472,000 realized on the cancellation of related interest rate swaps, which equated to $0.03 per Unit on an after tax basis.

Depreciation declined by $133,000, reflecting the impact of write-downs made in the prior year on certain asset retirements. Amortization of goodwill has not been taken in 2002 in accordance with the newly adopted Canadian accounting standard on goodwill and intangibles.

Lower interest and amortization charges largely offset lower operating income, and as a result pre-tax income declined only marginally, by $110,000 to $4,413,000, while pre-tax income margin remained constant at 12.9% of revenue.

In the current year the Fund recorded an income tax recovery in the amount of $525,000. This is $676,000 higher than the tax expense provision of the prior year, primarily because of lower operating earnings, the benefit of increased tax shelter which is available to the Fund following the recent Unit offering, and tax rate reductions in the current year.

Operating Earnings, Net Income and Distributable Cash Flow



Net earnings for the year were $4,938,000, an increase of $566,000 over 2001, due primarily to lower interest and amortization costs, and higher tax recoveries. However, earnings per Trust Unit declined by $0.05 per Unit to $0.73 per Unit a result of the additional Units and the one-time loss on retiring the interest rate swaps noted above.

Distributable cash flow totaled $6,800,000, or $1.01 per Unit. This was $1,115,000 higher than 2001 due to reduced debt service costs and lower sustaining capital expenditures, net of reserves from 2001. These factors more than offset lower operating income for the period. On a per Unit basis, distributable cash flow was in line with 2001, reflecting the impact of additional Units that were issued in the second quarter.

Cash Flow

In the year ending December 31, cash flow from operations before changes in non-cash working capital was $7.5 million, as compared to $8.5 million in 2001. The decline resulted from decreased operating earnings, which as described previously, was primarily caused by lower contracted seedling volumes. Non-cash working capital changes contributed an additional $0.7 million to cash flow 2002. This was improved from the $0.2 million decrease in 2001, and resulted primarily from decreased unbilled revenue balances in 2002, due to lower volumes and changes to the timing of some contract progress payments.

During 2002, $6.4 million ($1.01 per Unit) in distributions were paid to Unitholders of record up to September 30, 2002. This is higher than the $5.4 million ($0.96 per Unit) paid in 2001 due to a greater average number of Units outstanding in the current year, as well as a higher top-up distribution in the first quarter of 2002 ($0.14 per Unit) as compared to 2001 ($0.08 per Unit). Similarly, the distribution to Unitholders declared and payable on December 31, was $0.4 million higher, at $1.6 million in 2002 ($0.2212 per Unit) compared to $1.2 million in 2001 ($0.2214 per Unit), reflecting the higher number of Units outstanding.

In 2002, PRT made capital expenditures for replacement and earnings-enhancing capital projects totaling $1.8 million. This was a decline of $762,000 from 2001, and reflects a reduction in annual capital spending in light of reduced seedling volumes in 2002. All capital expenditures for replacement capital (sustaining capital and seedling containers) were financed out of current period cash flow. Capital spending to increase earnings through acquisition, cost reduction or increased revenue, is generally financed from term debt or equity. In 2002, earnings-enhancing capital expenditures were temporarily financed out of working capital, which will be replaced with more permanent financing from the Company's

term debt facility in 2003. Earnings-enhancing capital projects must meet project return criteria before they are approved and are eligible to be financed.

Capital Spending ($'000s)

	1998	1999	2000	2001	2002
Sustaining capital (excluding capital reserves)	$ 228	$ 276	$ 540	$ 419	$ 462
Seedling container replacement	749	993	954	1,090	660
Acquisitions, net of cash acquired	–	2,594	471	–	–
Earnings-enhancing capital expenditures	4,950	3,033	3,442	1,036	661
	$5,927	$6,896	$5,407	$2,545	$1,783

Late in the fourth quarter, the Fund deposited $742,000 in escrow towards completion of an equity investment in JRP Consulting Ltd. early in 2003. JRP is a leading supplier of software solutions for improved silviculture planning and seedling management. This investment will be accounted for by the equity method, and as such will not factor into the determination of distributable cash flow unless and until dividends are received from JRP. The investment will be financed from working capital raised in the 2002 Unit offering.

Financial Position

The issuance of 1.65 million new Trust Units during the second quarter of 2002, which raised $16.5 million in new capital ($15 million net of expenses), has further strengthened the Fund's financial position. The proceeds were used to repay term debt and bolster working capital. A secondary objective of this offering was to increase trading volumes for the Fund's Units, by increasing the trading float.

As such, net working capital was $4.7 million at December 31, 2002, compared to $1.5 million (including the current portion of term debt) at December 31, 2001. The increase from the Trust Unit issuance has been partially offset by the temporary financing of approximately $500,000 of earnings-enhancing capital expenditures out of working capital, and by the funds reserved to make the investment in JRP Consulting.

The company has no current balance on its term loan facility, but has up to $20 million available under this facility to finance earnings-enhancing capital expenditures. The Company also has up to $7.7 million available to it under its revolving operating loan facility, of which $4.6 million had been drawn at the end of the year (2001 – $7.0 million).

Risks and Risk Management

The Company's business involves the cultivation and growing of forest seedlings, an agricultural crop. As such, the business of PRT is subject to risks inherent in an agricultural business. To manage these risks, PRT grows much of its crop in climate controlled greenhouses in diverse locations, and carefully monitors the growing conditions of its nurseries with trained growing personnel. In addition, the Company maintains insurance against certain types of crop losses.

Certain of PRT's costs are subject to variations caused by movements in commodity prices. Some costs, such as energy, have shown increased volatility in recent periods, which has and may continue to adversely impact PRT's cost structure. The Company typically prices its products under annual sales contracts, and so may not be able to revise its sales prices in the short term to offset commodity price volatility. To reduce this risk, PRT purchases energy from a variety of regulated and non-regulated sources, which is expected to partially offset the effect of short-term changes in commodity prices. The Company may also enter into forward purchase contracts for future energy requirements where management considers it advantageous to do so.

The business of PRT is highly dependent on the forest industry in Canada. While the Company is not materially dependent on any one customer, regional markets may be impacted by changes in global markets and government regulations. In recent years, management has taken steps to diversify PRT's operations outside of British Columbia, such that at the present time, more than half of the Company's revenues are derived from outside the province.

The Company intends to use term debt financing to fund earnings-enhancing capital expenditures in the current low interest rate environment. Interest rate risk is managed by fixing term debt rates for varying terms using interest rate swaps. Working capital loans are short term in nature and represent a relatively small portion of the cost of total borrowings. Accordingly, management does not hedge interest rate risk on this debt.

The production of forest seedlings has limited impact on the environment. Seedlings are grown in controlled greenhouses or in defined open compounds. To manage any potential environmental risks, PRT has established an Environmental Management System (EMS). The EMS consists of an environmental policy, codes of conduct, periodic site audits, employee training and awareness, environmental monitoring, emergency prevention and response procedures, and periodic reporting.

Outlook

PRT faced significant operating challenges in 2002, related to the poor business conditions in the forest industry. Some customers temporarily reduced silviculture spending, leading to lower seedling orders and increased pressure for more cost-effective reforestation solutions.

The impact of these pressures on PRT will extend into 2003, as the forest industry continues to face uncertainty over the resolution of the softwood lumber trade dispute, and low commodity prices for wood products. Energy prices have also been rising, which will impact greenhouse heating costs.

To weather these conditions, we have kept our balance sheet in solid shape, and diversified our markets across Canada and into the United States. These measures have helped PRT offset some of the volatility within regional markets, and have allowed us to bring relative stability to our results despite the difficult conditions in the forest industry which we serve.

While 2003 will continue to be challenging, we remain optimistic about our prospects for the future. The trade issues facing the forest industry should eventually be resolved, and we expect commodity prices will respond to economic recovery in the USA. We are well positioned to benefit when these events unfold, and anticipate that by leveraging on our market position and financial strength, we will deliver solid results for our investors.

PRT Forest Regeneration Income Fund

Summary Financial Data ($'000s)

	1998	1999	2000	2001	2002
Operating Statistics					
Revenues	22,097	26,714	33,270	35,165	34,277
Revenue Growth Rate (Year over Year)	8.6%	20.9%	24.5%	5.7%	- 2.5%
Operating Income	6,207	7,090	8,060	8,905	7,628
% of revenue	28.1%	26.5%	24.2%	25.3%	22.3%
Net Earnings(1)	4,040	4,508	4,122	4,372	4,939
Earnings per Unit	$ 0.72	$ 0.80	$ 0.74	$ 0.78	$ 0.73
Distributable Cash flow	5,725	5,895	5,383	5,684	6,800
Distributable Cash Flow per Unit	$ 1.02	$ 1.05	$ 0.96	$ 1.01	$ 1.01
Return on Average Equity	7.9%	9.0%	8.4%	9.2%	9.3%
Distributable Cash Flow Yield (on closing Unit price)	11.3%	12.0%	11.0%	9.1%	10.1%
Distributable Cash Flow Yield (on IPO Unit price)	10.2%	10.5%	9.6%	10.1%	10.1%
Capital Spending:					
Sustaining Capital (excludes reserves)	228	276	540	419	462
% of revenue	1.0%	1.0%	1.6%	1.2%	1.3%
Earnings-enhancing (including acquisitions)	4,950	5,627	3,913	1,036	661
Subtotal	5,178	5,903	4,453	1,455	1,123
Seedling containers	749	993	954	1,090	660
Total	5,927	6,896	5,407	2,545	1,783
Financial Position					
Working Capital (excluding current portion of term debt)	2,529	1,867	2,628	2,943	4,737
Interest Bearing Debt Position					
Operating loan (net of cash held by Fund)	1,641	2,990	5,855	5,748	3,010
Term loan (including current portion)	4,968	8,070	11,838	11,502	–
Total	6,609	11,060	17,693	17,252	3,010
Term Debt to Equity	0.098	0.161	0.247	0.246	0.000
Total Assets	61,062	66,402	70,999	69,934	68,709
Unit Price Range – Toronto Stock Exchange					
High	$ 10.25	$ 9.90	$ 10.20	$ 11.45	$ 11.26
Low	$ 8.00	$ 8.25	$ 7.00	$ 8.60	$ 9.51
Close	$ 9.00	$ 8.75	$ 8.75	$ 11.10	$ 10.01
Volume	834,339	874,126	877,194	1,276,590	2,086,315

(1) *After giving effect to change in accounting policy for goodwill amortization.*

Financial Statements

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of PRT Forest Regeneration Income Fund (the "Fund") and all the information in this annual report pertaining to the Fund have been prepared by PRT Management Inc. ("PRT Management") and management of Pacific Regeneration Technologies Inc. ("PRT") and have been approved by the Board of Trustees of the Fund.

The consolidated financial statements have been prepared by PRT Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. PRT Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. PRT Management has prepared the financial information of the Fund presented elsewhere in the annual report and has ensured that it is consistent with the consolidated financial statements of the Fund.

PRT Management maintains, on behalf of the Fund, systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Trustees of the Fund are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements of the Fund. The Trustees carry out this responsibility through the Fund's Audit Committee.

The Audit Committee is comprised of the three Trustees, all of whom are independent and unrelated to the Fund. The Committee meets periodically with PRT Management and management of PRT as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee also considers, for approval by the Unitholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements of the Fund have been audited by PricewaterhouseCoopers, the external auditors, in accordance with generally accepted auditing standards on behalf of the Unitholders. PricewaterhouseCoopers has full and free access to the Audit Committee.

On behalf of the Trustees and Management

Colin A.C. Dobell
Trustee

John Kitchen
President & CEO
Pacific Regeneration Technologies Inc.

Robert A. Miller
Vice President Finance & Administration & CFO
Pacific Regeneration Technologies Inc.

February 20, 2003

Auditors' Report

To the Unitholders of PRT Forest Regeneration Income Fund

We have audited the consolidated balance sheets of **PRT Forest Regeneration Income Fund** (the "Fund") as at December 31, 2002 and 2001 and the consolidated statements of earnings and Unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and 2001 and the results of its operations, changes in Unitholders' equity and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada
February 12, 2003
(except for note 8, which is as at February 17, 2003)

Consolidated Balance Sheets
As at December 31, 2002 and 2001

	2002	2001
Assets		
Current assets		
Cash	$ 1,604,915	$ 1,244,296
Accounts receivable	8,576,005	8,526,275
Inventories	1,083,698	1,107,786
Prepaid expenses	101,338	224,123
Unbilled revenue	1,177,978	1,973,079
	12,543,934	13,075,559
Deposit on investment *(note 15)*	742,000	–
Property, plant and equipment *(note 4)*	28,936,007	30,369,038
Goodwill *(note 3)*	26,487,158	26,487,158
	$ 68,709,099	$ 69,931,755
Liabilities and Unitholders' Equity		
Current liabilities		
Operating line *(note 5)*	$ 4,614,823	$ 6,992,766
Accounts payable and accrued liabilities	1,587,541	1,898,706
Distribution payable to Unitholders *(note 8)*	1,604,848	1,240,825
Current portion of long-term debt *(note 6)*	–	1,421,016
	7,807,212	11,553,313
Long-term debt *(note 6)*	–	10,080,572
Future income taxes *(note 9)*	985,359	1,503,354
	8,792,571	23,137,239
Unitholders' Equity *(note 7)*	59,916,528	46,794,516
	$ 68,709,099	$ 69,931,755

Subsequent events *(note 15)*

Approved by the Trustees

Colin A.C. Dobell
Trustee

Allan D. Laird
Trustee

Consolidated Statements of Earnings and Unitholder's Equity

For the years ended December 31, 2002 and 2001

	2002	2001
Revenue	$ 34,277,244	$ 35,165,485
Expenses		
Costs of production	20,418,874	20,413,195
Nursery administration	4,972,358	4,649,255
Fund administration	159,869	198,434
Management fee *(note 10(b))*	1,098,344	1,000,000
	26,649,445	26,260,884
Earnings before the following	7,627,799	8,904,601
Interest expense	(457,592)	(1,224,928)
Depreciation	(2,302,694)	(2,435,635)
Amortization of goodwill *(note 3)*	–	(756,268)
Loss on retirement of interest rate swaps *(note 6)*	(472,200)	–
Gain on sale of property, plant and equipment	18,004	35,368
Earnings before income taxes	4,413,317	4,523,138
Recovery of (provision for) income taxes *(note 9)*	525,411	(151,347)
Net earnings for the year	4,938,728	4,371,791
Distributions declared during the year *(note 8)*	(6,776,716)	(5,382,926)
Issuance of Trust Units *(note 7)*	14,960,000	–
Unitholders' Equity – Beginning of year	46,794,516	47,805,651
Unitholders' Equity – End of year	$ 59,916,528	$ 46,794,516
Net earnings per Trust Unit	$ 0.73	$ 0.78
Weighted average number of Trust Units outstanding	$ 6,740,372	$ 5,605,714

Consolidated Statements of Distributable Cash

For the years ended December 31, 2002 and 2001

	2002	2001
Net earnings for the year	$ 4,938,728	$ 4,371,791
Net earnings adjustments		
Depreciation (excluding seedling containers)	2,302,694	2,435,635
Amortization of goodwill	–	756,268
Gain on sale of property, plant and equipment	(18,004)	(35,368)
Future income tax (recovery) provision	(594,662)	70,833
Repayment of long-term debt	–	(1,336,013)
Loss on retirement of interest rate swaps	472,200	–
Sustaining capital expenditures	(461,431)	(418,974)
Reserve for sustaining capital expenditures	160,000	(160,000)
Distributable cash	$ 6,799,525	$ 5,684,172
Distributable cash per Trust Unit	$ 1.01	$ 1.01

Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

	2002	2001
Cash flows from operating activities		
Net earnings for the year	$ 4,938,728	$ 4,371,791
Items not affecting cash		
Depreciation (excluding seedling containers)	2,302,694	2,435,635
Amortization of goodwill	–	756,268
Seedling container depreciation	876,661	872,257
(Recovery of) provision for future income taxes	(594,662)	70,833
Gain on sale of property, plant and equipment	(18,004)	(35,368)
	7,505,417	8,471,416
Net change in non-cash working capital items	657,746	(212,830)
	8,163,163	8,258,586
Cash flows from financing activities		
Distributions paid to Unitholders	(6,412,693)	(5,379,512)
Proceeds of long-term debt	–	1,000,000
Repayment of long-term debt	(11,501,588)	(1,336,013)
Issuance of Trust Units	14,960,000	–
Decrease in operating line	(2,377,943)	(103,005)
	(5,332,224)	(5,818,530)
Cash flows from investing activities		
Purchase of property, plant and equipment		
Seedling containers	(659,994)	(1,089,708)
Earnings-enhancing	(661,398)	(1,036,536)
Sustaining	(461,431)	(418,974)
Proceeds on sale of property, plant and equipment	54,503	108,383
Deposit on investment *(note 15)*	(742,000)	–
	(2,470,320)	(2,436,835)
Increase in cash	360,619	3,221
Cash – Beginning of year	1,244,296	1,241,075
Cash – End of year	$ 1,604,915	$ 1,244,296
Supplemental information		
Interest paid	$ 325,912	$ 1,131,266
Income taxes paid	$ 69,251	$ 80,514

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

1 Organization and nature of operations

PRT Forest Regeneration Income Fund (the "Fund") is an open-ended single purpose Trust, created under the laws of British Columbia by a Declaration of Trust dated May 14, 1997. The Fund is the largest producer of container-grown forest seedlings in North America. The Fund grows its seedlings at eight nurseries in British Columbia, three in Ontario, and one in each of Alberta and Saskatchewan.

2 Significant accounting policies

Basis of financial statements

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiary Pacific Regeneration Technologies Inc. ("PRT") and PRT's wholly owned subsidiary companies. Inter-group transactions are eliminated on consolidation.

Revenue recognition

Revenue from contracts is recognized as a percentage of the contract price, based on the percentage of total direct expenses incurred to total budgeted direct costs. Total revenue is recognized when seedling crops reach substantial completion, which is defined as meeting all contracted growth specifications. Any excess of revenues recorded using this percentage of completion method over amounts billed is recorded as unbilled revenue.

Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered.

Inventories

Inventories of supplies are recorded at the lower of cost and replacement cost.

Future income taxes

The Fund accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in income in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Notes to Consolidated Financial Statements – continued
December 31, 2002 and 2001

2 Significant accounting policies – continued

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates which reflect the estimated useful lives of the assets as follows:

Buildings	40 years
Greenhouses	25 years
Equipment	3–15 years
Seedling containers	5 years

Depreciation related to the seedling containers is included in costs of production in the consolidated statements of earnings and Unitholders' equity.

Distributions to Unitholders

The amount of cash to be distributed annually to Unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for depreciation, amortization, future income taxes, repayment of long-term debt, sustaining capital expenditures, gains or losses on sale of property, plant and equipment and any reserves considered appropriate by the Board of Directors of PRT and the Trustees of the Fund. For the year ended December 31, 2002, distributable cash was not adjusted for the repayment of long-term debt, and was adjusted for the related loss on retirement of interest rate swaps as these were financed from the proceeds of a Trust Unit offering. In the event earnings-enhancing capital expenditures are not financed with long-term debt or additional equity, distributable cash may be reduced by these expenditures as well.

During 2002 and prior years, distributions to Unitholders were made on a quarterly basis. Commencing January 2003, distributions to Unitholders will be made on a monthly basis. The Fund's policy is to make a cash distribution each month (2002 and 2001 – each quarter) equal to interest charged by PRT by the Fund on the $54.7 million (2001 – $41.2 million) of inter-group 12% (2001 – 12%) unsecured subordinated notes (the "Notes") plus interest charged on any other inter-group indebtedness less estimated Fund administration costs. In addition to the monthly (2002 and 2001 – quarterly) distributions, an additional distribution (the "Thirteenth Distribution") (2002 and 2001 – the "Fifth Distribution") will be made on or before March 31 of the following year based on the actual distributable cash for the year, less reserves, if any, considered appropriate by the Board of Directors of PRT and the Trustees of the Fund.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

Notes to Consolidated Financial Statements – continued
December 31, 2002 and 2001

3 Change in accounting policy

Effective January 1, 2002, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants with regard to goodwill and intangible assets. Under the new recommendations, the Fund no longer amortizes goodwill. Instead, goodwill will be subject to a fair value based impairment assessment, and a provision is recorded for any impairment. No provision was required in 2002. This change in accounting policy has been applied prospectively.

As a result of adopting the new accounting policy for goodwill and intangible assets, adjusted net earnings and adjusted net earnings per Trust Unit for the year ended December 31, 2002 are as follows:

	2002	2001
Reported net earnings	$ 4,938,728	$ 4,371,791
Add back: Goodwill amortization	–	756,268
Adjusted net earnings	$ 4,938,728	$ 5,128,059
Adjusted net earnings per Trust Unit	$ 0.73	$ 0.91

As a result of this change, net earnings have increased by $756,268 in 2002. The change has no impact on distributable cash in 2002.

4 Property, plant and equipment

2002	Cost	Accumulated depreciation	Net
Land	$ 2,631,643	$ –	$ 2,631,643
Buildings	4,526,125	566,481	3,959,644
Greenhouses	17,553,757	3,876,300	13,677,457
Equipment	12,281,811	5,448,212	6,833,599
Seedling containers	5,356,015	3,522,351	1,833,664
	$ 42,349,351	$ 13,413,344	$ 28,936,007

2001	Cost	Accumulated depreciation	Net
Land	$ 2,631,643	$ –	$ 2,631,643
Buildings	4,460,314	448,386	4,011,928
Greenhouses	17,441,516	3,045,057	14,396,459
Equipment	11,401,685	4,123,009	7,278,676
Seedling containers	4,718,822	2,668,490	2,050,332
	$ 40,653,980	$ 10,284,942	$ 30,369,038

The following summarizes the amounts charged to earnings in respect of depreciation:

	2002	2001
Seedling container depreciation included in costs of production	$ 876,661	$ 872,257
Other depreciation	2,302,694	2,435,635
Total depreciation	$ 3,179,355	$ 3,307,892

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
December 31, 2002 and 2001

5 OPERATING LINE

PRT has a demand revolving operating facility of up to $7.7 million or US$4.75 million to fund the company's working capital and general corporate requirements, and to provide temporary financing for earnings-enhancing capital expenditures prior to conversion to term debt *(note 6)*. The amount of operating line available is dependent upon meeting certain margin requirements. As at December 31, 2002, the full amount of the facility was available and the company had drawn $4,614,823 (2001 – $4,992,766) of cash advances from the operating facility bearing interest at prime plus 1/4% (2001 – prime plus 1/4%) and $nil of short-term bankers' acceptances (2001 – $2,000,000, which matured on January 14, 2002 and bore interest at 3.74% including a stamping fee). A first fixed and floating charge over PRT's assets is provided as security.

6 LONG-TERM DEBT

PRT has a term debt facility available in the amount of $20 million (2001 – $20 million), or the equivalent in U.S. dollars, to fund earnings-enhancing capital expenditures and acquisitions. The loans are amortized on a straight-line basis over 10 years, but mature 5 years from the date of drawing.

As at December 31, the following amounts have been drawn under the facility:

	2002	2001
Term loan, bearing interest at 7.35%, maturing on March 31, 2006	$ –	$ 10,551,588
Term loan, bearing interest at 7.9%, maturing on September 30, 2006	–	950,000
	–	11,501,588
Less: Current portion	–	1,421,016
	–	10,080,572
Interest paid on long-term debt	$ 259,197	$ 920,223

During the year, PRT repaid its outstanding term debt and incurred a loss of $472,200 on the retirement of interest rate swaps.

As at December 31, 2001, PRT had entered into interest rate swap agreements on terms varying from 5 to 10 years to fix the interest rates on its term loans. The rates noted in the above table represent the fixed interest rates, including stamping fees, resulting from the swap agreements.

A first fixed and floating charge over PRT's assets is provided as security for the facility.

7 UNITHOLDERS' EQUITY

The Declaration of Trust provides that an unlimited number of Trust Units may be created and issued. Each Trust Unit represents an equal undivided beneficial interest in the assets of the Fund. All Trust Units of the Fund are of the same class with equal rights and privileges. Each Trust Unit is transferable, and entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Trust Unit held. Unitholders are not subject to future calls or assessments.

Trust Units are redeemable at the holder's option at amounts related to market prices at the time, subject to a maximum of $75,000 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata number of PRT common shares and Notes.

Notes to Consolidated Financial Statements – continued
December 31, 2002 and 2001

7 Unitholders' Equity – continued

Units outstanding as at December 31 are:

	2002 Number of Units	2001 Number of Units
Balance – Beginning of year	5,605,714	5,605,714
Units issued	1,650,000	–
Balance – End of year	7,255,714	5,605,714

On April 23, 2002, the Fund completed the issue of 1,500,000 Trust Units of the Fund at $10 per Trust Unit for net proceeds of $13,550,000, after deducting expenses of the issue in the amount of $1,450,000. The underwriters were given an over-allotment option of 150,000 units which was fully exercised on May 15, 2002. Net proceeds of the over-allotment after deducting underwriter's fees of $90,000 were $1,410,000. The Fund used the proceeds to retire existing indebtedness previously incurred to finance acquisitions and expansions *(note 6)* and to provide working capital for general corporate purposes.

During 2001, the Fund established a Unit option plan whereby the Trustees of the Fund may from time to time grant options to purchase Units to eligible officers, employees and consultants of the Fund or any subsidiary and to directors of any subsidiary. The aggregate number of Units reserved under the plan is 560,572. The maximum term of any option is 10 years. The exercise price of an option cannot be less than the average of the Unit price at the close of business on the five trading days preceding the grant date. As at December 31, 2002, no options had been granted.

8 Distributions to Unitholders

During the year ended December 31, 2002, the Fund declared distributions to the Unitholders of $6,776,716 or $1.01 per Unit (2001 – $5,382,926 or $0.96 per Unit) based on the number of Units outstanding on the record date. The amounts and record dates of these distributions were:

	2002		2001	
	Amount	Per Unit	Amount	Per Unit
Fifth Distribution on account of prior year	$ 761,256	$ 0.14	$ 460,302	$ 0.08
March 31	1,215,268	0.21	1,213,710	$ 0.22
June 30	1,590,496	0.22	1,227,264	$ 0.22
September 30	1,604,848	0.22	1,240,825	$ 0.22
December 31	1,604,848	0.22	1,240,825	$ 0.22
	$ 6,776,716	$ 1.01	$ 5,382,926	$ 0.96

The distribution of $1,604,848 with a record date of December 31, 2002 was accrued at year-end and paid in January 2003.

On February 17, 2003, the Fund's Trustees declared a Fifth Distribution for 2002 of $784,060 or $0.11 per Unit (February 20, 2002 – $761,256 or $0.14 per Unit) to be paid March 14, 2003. As a result, cash distributions in respect of 2002 operations total $6,799,520 or $0.99 per Unit (2001 – $5,683,880 or $1.01 per Unit).

Notes to Consolidated Financial Statements – continued
December 31, 2002 and 2001

8 Distributions to Unitholders – continued

The costs of issuing Trust Units are deductible for income tax purposes on a straight-line basis over a five-year period. The Fund incurred issue costs in 1997 of $3,002,597 and incurred additional issue costs in 2002 of $1,540,000. The Fund can designate these deductions as a non-taxable distribution of amounts to Unitholders. The distributions declared have been allocated as follows for income tax purposes:

	2002	2001
Taxable – interest	$ 5,293,219	$ 4,322,101
Taxable – dividends	859,614	302,339
Non-taxable	623,883	758,486
Total distribution	$ 6,776,716	$ 5,382,926
Per Unit	$ 1.01	$ 0.96

As at December 31, 2002, $1,232,006 (2001 – $315,889) of issue costs were available for future designation as non-taxable distributions.

9 Income taxes

The Fund is not taxable on any income that is distributed to Unitholders. PRT is taxable on its income at Canadian statutory tax rates.

a) The consolidated income tax recovery (provision) comprises the following:

	2002	2001
Current income taxes	$ (69,251)	$ (80,514)
Future income taxes	594,662	(70,833)
	$ 525,411	$ (151,347)

b) The recovery of (provision for) income taxes shown in the consolidated statements of earnings differs from the amounts obtained by applying statutory tax rates to the earnings before income taxes for the following reasons:

	2002	2001
Income tax expense computed at statutory rates	$ (1,647,568)	$ (1,798,295)
Interest on the Notes and other inter-group indebtedness	2,283,620	2,036,635
Non-deductible amortization	–	(296,401)
Reduction in income tax rate	45,433	77,636
Large corporations tax	(69,251)	(80,514)
Other	(86,823)	(90,408)
Recovery of (provision for) income taxes	$ 525,411	$ (151,347)

Notes to Consolidated Financial Statements – continued
December 31, 2002 and 2001

9 Income taxes – continued

c) The net future income tax liability comprises the following differences between book value and tax value at current tax rates:

	2002	2001
Future income tax assets (liabilities)		
Accounts receivable	$ –	$ (34,674)
Property, plant and equipment	(1,015,878)	(1,352,528)
Deductible expenses for tax purposes	(195,955)	(283,816)
Share issue costs	–	80,217
Tax loss carry-forwards	226,474	87,447
Future income tax liability – net	$ (985,359)	$ (1,503,354)

d) Expiry of non-capital loss carry-forwards in subsidiary companies is as follows:

Year ending December 31	
2003	$ –
2004	342,005
2005	–
2006	133,898
2007	–
2008	22,639
2009	108,112
	$ 606,654

10 Administration and Management Agreements

a) Administration Agreement

The Fund has entered into an Administration Agreement with PRT Management Inc. ("PRT Management"), a company partially owned by certain employees and former owners of PRT. According to the Agreement, PRT Management will provide or arrange for the provision of administration services to the Fund. PRT Management is entitled to reimbursement of out-of-pocket expenses for providing these services but will not earn a fee. The Agreement has a 20-year term and can be terminated by the Fund in certain circumstances.

b) Management Agreement

PRT has entered into a Management Agreement with PRT Management. According to the Agreement, PRT Management will provide management and administration services and strategic advice to PRT and provide individuals to serve in executive positions. The initial term of the Agreement is 20 years, and it is renewable thereafter for successive five-year terms unless PRT gives notice of non-renewal at least 12 months before the end of the relevant term. The Management Agreement may be terminated by PRT or PRT Management in certain circumstances. In 2002, PRT Management earned a fee of $1,068,000 (2001 – $1,000,000) plus reimbursement of $30,344 in certain out-of-pocket expenses (2001 – $nil). The fee is periodically set at the level necessary to achieve reimbursement, without profit, of PRT Management's internal costs and expenses of providing these services, including salaries and wages. In addition, as an incentive to PRT Management to enhance cash distributions to Unitholders of the Fund, PRT Management is entitled to earn incentive fees which will be payable annually when the per Unit cash distributions to Unitholders generated from the operations of PRT exceed certain defined levels.

No incentive fees were earned by PRT Management during the year (2001 – $nil).

Notes to Consolidated Financial Statements – continued
December 31, 2002 and 2001

11 Commitments

PRT has operating lease commitments for certain nursery growing facilities. Future minimum payments over the next five years are as follows:

Year ending December 31	
2003	$ 151,642
2004	21,082
2005	21,082
2006	21,082
2007	21,082
Thereafter	270,704
	$ 506,674

12 Related party balances and transactions

PRT provides seedling cultivation services at market rates to a company partially owned by certain shareholders of PRT Management. During the year ended December 31, 2002, PRT charged $266,376 (2001 – $202,844) for providing these services. As at December 31, 2002, included in accounts receivable is $76,630 (2001 – $nil) due from the related party.

Also see *note 10*.

13 Financial instruments

Fair value

The fair values of cash, accounts receivable, operating line, accounts payable and accrued liabilities and distribution payable to Unitholders approximate their carrying values given the short-term maturity of these instruments.

Credit risk

A substantial portion of PRT's accounts receivable is with customers in the forestry industry and is subject to normal industry credit risks.

14 Significant customers

Approximately 17% (2001 – 21%) and 14% (2001 – 14%) of the Fund's revenue is earned from its two largest customers. No other customers account for more than 10% of the Fund's revenues.

15 Subsequent events

a) On January 2, 2003, PRT acquired a non-controlling interest in JRP Consulting Ltd. ("JRP"), a privately held company, for cash consideration of $742,000. The investment will be accounted for by the equity method. JRP is a supplier of software solutions for seedling supply management by forest companies, and is located in Port McNeill, BC.

b) PRT USA Inc., a wholly owned Delaware subsidiary, was formed on December 20, 2002 to purchase property and develop growing facilities in Nevada. On January 30, 2003, PRT USA Inc. signed a letter of intent to acquire land and water rights in the Pahrump Valley, a region west of Las Vegas, for approximately US$270,000.

PRT
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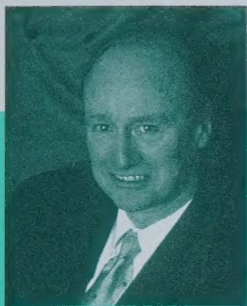
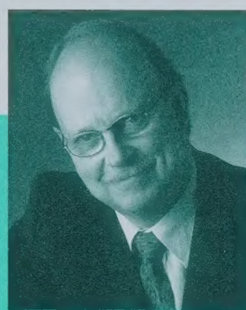
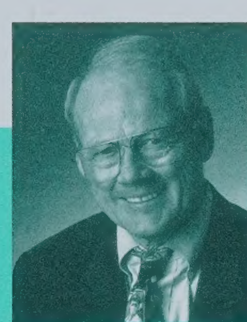


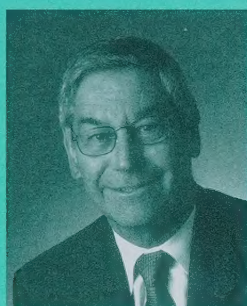
Colin A.C. Dobell



John Kitchen

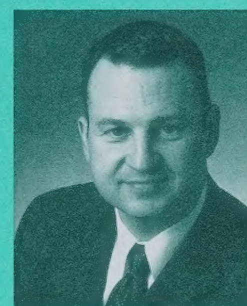


Allan D. Laird



George C. Stevens

Christopher J. Worthy



Robert A. Miller

Herb Markgraf

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Financial Consulting Firm

John Kitchen
President and CEO

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

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Associate Counsel,
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Christopher J. Worthy
President, Worthy Capital Ltd.

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President and CEO

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CFO and Secretary

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Registrar and Transfer Agent

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Vancouver, Calgary, Toronto and Montreal

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Toronto Stock Exchange

Trading Symbol

PRT.UN

Web Site

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Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
Associate Counsel,
Lang Michener, Barristers & Solicitors
Law Firm

Annual Meeting

The annual meeting of Unitholders will be held at 10:00 am, May 15, 2003 at the offices of Davis & Company, 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia

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